



Expropriation risk and competition within the military



Madhav S. Aney^a, Giovanni Ko^{b,*}

^a School of Economics, Singapore Management University, 90 Stamford Road, 178903, Singapore

^b Division of Economics, School of Humanities and Social Sciences, Nanyang Technological University, 14 Nanyang Drive, 637332, Singapore

ARTICLE INFO

Article history:

Received 24 October 2014

Received in revised form 20 April 2015

Accepted 20 April 2015

Available online 7 May 2015

JEL classification:

D02

D72

D74

H56

O12

Keywords:

Property rights

Military power

Checks and balances

Institutions

ABSTRACT

How can agents in the military, who control the means of coercion, commit not to expropriate from producers? In this paper we propose competition within the military as one of the mechanisms that can deter predation and consequently create commitment. In our model, even if agents within the military could expropriate all output costlessly, it is attractive to protect producers from predating military units. This marginal defensive advantage and consequently defence is an effective way to potentially eliminate is because there is a other military units, reducing competition and leading to higher future payoffs. Our model predicts that greater internal competition within the military lowers the risk of expropriation and that this effect is strongest for countries with low institutional and economic development. Testing this prediction empirically, we find a robust negative relationship between competition within the military and expropriation risk. In line with our model this effect is strongest for countries at lower stages of institutional and economic development, and it weakens as the latter improve. These results indicate that there may be a short-run component to property rights institutions that varies with the degree of competition among agents who control the means of coercion.

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1. Introduction

The enforcement of property rights and contractual agreements ultimately depends on the presence of agents, such as the police or the military, who can use coercive power to punish those who violate them. But how can these agents commit not to abuse this power for their own gain? This commitment is important since the possibility of ex-post expropriation would seriously undermine incentives for ex-ante investments leading to poor economic outcomes.

Our answer to this question of “who guards the guards themselves?” is that “the guards guard each other”, that is, competition between agents in the military and in particular, their inability to commit not to turn against one another, keeps predatory behaviour at bay. In our model, even if these agents could expropriate all output costlessly, it is attractive to protect producers from predators. This is because there is a marginal defensive advantage and consequently defence is an effective way to potentially eliminate competitors since a reduction in competition leads to higher future payoffs. Producers can therefore engineer a Prisoner's dilemma that exploits the desire of agents with coercive power to get rid of competitors, to threaten potential predators with elimination.

Using this basic mechanism we find a negative relationship between short-run expropriation risk and the number of specialists in violence.¹ We interpret this as a mechanism through which we may expect competition between specialists in violence to reduce expropriation risk. Embedding this mechanism in a richer model with occupational choice, and a public goods role for the specialists

* Corresponding author.

E-mail addresses: madhavsa@smu.edu.sg (M.S. Aney), gko@ntu.edu.sg (G. Ko).

¹ We follow North et al. (2009), in using this term to refer to agents with control of coercive power.

in violence, we find that this negative relationship is decreasing in magnitude in the level of long-run institutional and economic development, as the relative payoff of production increases as improved institutions increase the costs of predation.

We test this model using a panel of 168 countries over 11 years. Controlling for country and year fixed effects, we find a robust negative relationship between the short-run risk of expropriation and the number of military units in a country. In line with the predictions of our model we find that this effect attenuates in the level of long-run institutional quality. In particular we find that the negative relationship predicted by our model is significant for countries below the 30th percentile of institutional development and becomes weaker for countries with higher institutional quality.

Our paper contributes to the large literature in economics and political science that attempts to explain the existence of the commitment by those who have power to expropriate. The dominant view in the literature on this issue is the one laid out in the seminal work of [Olson \(1993\)](#), who argued that as a specialist in violence faces fewer threats from competitors and becomes more entrenched, his incentives for full expropriation decrease, leading to reduced predation. Hence commitment by the specialist in violence arises as a result of his need to stimulate private investments in order to maximise revenue.² Our model departs from the Olsonian view in two ways.

First, the Olsonian insight works only in an infinitely repeated setting. If the game is only finitely repeated then the result unravels through backwards induction and we are left with full predation and consequently no investment in equilibrium, regardless of the number of specialists in violence. In the Olsonian setting, an infinitely repeated game allows the producers and specialists in violence to use trigger strategies to support equilibria characterised by high investment and low expropriation. However, in an infinitely repeated setting it is unclear why increasing the number of specialists in violence increases predation since it may be possible for producers to play trigger strategies that allow low predation to be sustained even with a large number of specialists in violence. Rather than taking it for granted that more specialists in violence lead to more conflict and lower investment, we supply explicit micro-foundations for the interaction between many specialists in violence. In doing so we also show that it is possible to sustain less than full predation in a one-shot setting.

Second, our paper is inspired by the fact that some real world institutional arrangements seem at odds with this Olsonian view and are predicated on the commonly held belief that diffusion of power is good. For example, in order to avoid collusion leading to abuses of their power, there are often strict protocols governing the manner in which the highest ranks of the military meet.³ Another famous historical example, which we deal with in more detail in section [Appendix A.1](#) in the [Appendix A](#), comes from the Roman Republic, where ultimate power over the army was typically vested in two consuls with a view to keep a check on their power. This idea of checks and balances lies at the heart of our model, where the presence of several military units keeps each one in check creating a balance of power conducive to investments.⁴ The insight that we formalise here is that commitment should not be seen as an additional strategy that may or may not be available to these agents as a result of exogenous institutional arrangements.⁵ Instead, we argue that commitment should be seen as a feature of an equilibrium arising from a game played between more than one specialists in violence.

The empirical findings in our paper are complementary to the research agenda that seeks to identify the long-run determinants and effects of institutions (see for example, [Efendic et al. \(2011\)](#) for a meta-analysis of the literature). This literature shows how variables such as factor endowments ([Engerman and Sokoloff, 2000](#)), legal origins ([Djankov et al., 2003](#)), and colonial history ([Acemoglu et al., 2001](#)), can explain long-run cross-country differences in institutions and economic performance. Our findings suggest that in addition to the time-invariant component of institutions that has been emphasised in this literature there may also be a short-run component.⁶ Our results suggest that the short-run component of expropriation risk can be explained partly through an “extractive” channel, that is the degree of competition between specialists in violence who control coercive power.

In particular, the extractive mechanism we model is one where equilibrium expropriation arises from the strategic interaction among players who have exclusive control of coercive power. In line with the literature⁷, our model predicts that this mechanism is prominent at lower levels of economic and institutional development. Our empirical results support this idea and indicate that a greater degree of internal competition among specialists in violence is associated with lower short-run expropriation risk but only

² This idea was formalised in [McGuire and Olson \(1996\)](#) and [Grossman and Noh \(1990\)](#). It is interesting to note that the problem of commitment becomes salient only in economies where output depends on ex-ante investments. In a pure exchange economy the ability to commit is irrelevant since the equilibrium is likely to be Pareto efficient even with predation since there are no incentive effects. [Piccione and Rubinstein \(2007\)](#) present a model that makes this point formally.

³ Our paper is related to [Besley and Robinson \(2010\)](#), who model the interaction between the military and civilian government when there is the possibility of the former seizing power through a coup. In their model, a key concern is the ability of the government to commit to pay the military, whereas our focus is on the commitment of the military. Furthermore, a major difference is that in our model agents within the military can collude to expropriate fully without incurring any costs.

⁴ [Acemoglu et al. \(2009\)](#), is another paper which incorporates some aspects of our model, in that it features elimination (through voting, rather than fighting) of competitors that can potentially be a threat in future rounds of elimination. They analyse the conditions under which a military junta would degenerate into personal rule. They find that stable coalitions emerge only if the game between the members of the junta is infinitely repeated and the members have a high enough discount factor. In contrast in our model, we will find that it is possible to maintain a unique stable coalition of specialists in violence all of whom side with the producers, even in a one shot setting.

⁵ The mechanism at play in our model is reminiscent of [Dal Bó \(2007\)](#), where a lobbyist can affect the outcome of a vote by a committee by offering members transfers which compensate voters for voting against their own preferences only when they are pivotal. Since this makes voting according to the wishes of the lobbyist a dominant strategy, the compensatory transfers are never paid out. The analogue idea in our model is that producers need to pay the specialists in violence only their payoff when they are the sole predator fighting against all others, i.e., when they are pivotal in predation, making this “bribe” small. On the other hand, our paper does not assume the existence of any kind of contract enforcement, which is required in [Dal Bó \(2007\)](#).

⁶ One paper that uses short-run fluctuations in institutions is [Busse and Hefeker \(2007\)](#) which estimates the effect of institutions on foreign direct investment using fixed effects estimation.

⁷ See for example [North et al. \(2009\)](#).

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